

## Message Text

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ACTION NEA-10

INFO OCT-01 IO-10 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-02 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

/099 W

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P R 221025Z MAY 75

FM AMEMBASSY DACCA

TO SECSTATE WASHDC PRIORITY 6842

INFO USMISSION GENEVA

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GENEVA FOR USDEL MTN

E.O. 11652: N/A

TAGS: EAID, EFIN, EAGR, BG

SUBJECT: BANGLADESH DEVALUES: FOREIGN TRADE EFFECTS

REF: A. DACCA 2421; B. DACCA 2479; C. DACCA 2489

1. MINISTRY FOREIGN TRADE OFFICIAL PROVIDED EMBOFF  
MAY 22 FOLLOWING INFORMATION CONCERNING BDG ANALYSIS  
OF EFFECT DEVALUATION ON FOREIGN TRADE.

2. EXPORTS. BANGLADESH FOREIGN TRADE STRUCTURE IS  
SUCH THAT MAJOR EXPORT TRADE BENEFITS OF DEVALUATION  
WILL BE LONG-TERM. FURTHERMORE THE PRICES  
OF EXPORT GOODS, WHICH MAY NOW RPT NOW BE REDUCED  
THANKS TO DEVALUATION, ARE ONLY ONE FACTOR AFFECTING  
EXPORT FLOWS. OTHER FACTORS OBVIOUSLY INCLUDE LEVEL  
OF FOREIGN DEMAND AND, ON SUPPLY SIDE IN LARGELY  
AGRICULTURAL BANGLADESH, SUCH FACTORS AS WEATHER.

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OVERALL SUCCESS OF DEVALUATION IN CONTRIBUTING TO

IMPROVED ECONOMIC OUTLOOK ALSO DEPENDENT ON OTHER  
"EXOGENOUS" FACTORS, VIZ:

A. INCREASING IMPORTS OF RAW MATERIALS AND SPARES,  
FUNDED LARGELY BY FOREIGN AID FLOWS. INCREASED IMPORTS  
WILL:

- (1) PERMIT OPERATION OF INDUSTRIES AT FULL  
CAPACITY, BOTH FOR EXPORT (E.G. JUTE)  
AND TO IMPROVE AVAILABILITY OF GOODS  
GENERALLY; AS WELL AS
- (2) PROVIDE GOVERNMENT WITH INCREASED  
REVENUES (FROM IMPORT DUTIES AND EXCISE  
TAXES) TO FINANCE DEVELOPMENT AND MEET  
ENHANCED TAKA PAYMENTS TO EXPORTERS,  
INCLUDING RAW JUTE CULTIVATORS.

ACROSS BOARD BDG ESTIMATES THAT TAKA PAYMENTS TO  
EXPORTERS WILL RISE BY ABOUT 30 PERCENT (SEE BELOW).

B. IMPROVED ECONOMIC OUTLOOK IN DEVELOPED COUNTRIES. IN  
ORDER FOR BANGLADESH TO SELL, OTHERS MUST BUY.

C. IN ADDITION, FOREIGN TRADE OFFICIAL NOTED IT  
EQUALLY OBVIOUS THAT TO REAP FULL MEASURE OF BENEFITS  
FROM DEVALUATION BANGALEES WILL HAVE TO WORK HARD AND  
EFFICIENTLY IMPLEMENT NEW MEASURES.

3. EXPORT SUBSIDIES REMOVED. ALTHOUGH NOT, RPT NOT,  
YET ANNOUNCED IN PRESS (REF A), FOREIGN TRADE OFFICIAL  
CONFIRMED THAT BDG EFFECTIVE MAY 17 REMOVED ALL EXPORT  
SUBSIDIES (DESCRIBED A-28, MARCH 6). THUS ENTIRE PRE-  
DEVALUATION MULTIPLE EXCHANGE RATE APPARATUS REMOVED,  
EXCEPT FOR OVERSEAS WAGE EARNERS' REMITTANCE SCHEME  
(DESCRIBED DACCA A-23). APPARATUS HAD INCLUDED HOME  
REMITTANCE SCHEME, EXPORT SUBSIDIES, 20 PERCENT  
IMPORT  
LICENSE TAX AND 30 PERCENT FOREIGN EXCHANGE TAX (I.E.  
ON INTERNATIONAL TRAVEL).

4. INDIVIDUAL EXPORT COMMODITIES.

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A. RAW JUTE. BANGLADESH SALES OF RAW JUTE HAVE  
BEEN SHARPLY DOWN IN CURRENT FISCAL YEAR. DEVALUATION,  
ALONE, IS NOT EXPECTED TO INCREASE GREATLY EXPORT  
SALES OF THIS COMMODITY FOR WHICH FOREIGN DEMAND HAS  
BEEN AT LOW LEVEL. HOWEVER, RELATIVE TO COMPETING  
FIBERS SUCH AS THAI KENAF AND RAW JUTE FROM OTHER  
EXPORTERS, BANGLADESH JUTE HAD BEEN RELATIVELY HIGH  
PRICED. BANGLADESH JUTE EXPORT CORPORATION (BJEC)

HAD REDUCED BANGLADESH PRICE FOR RAW JUTE FROM POUNDS STERLING 200 TO POUNDS STERLING 180 PER TON ABOUT ONE WEEK BEFORE DEVALUATION AND DEVALUATION EXPECTED RESULT IN FURTHER PRICE REDUCTION TO PERHAPS AS LOW AS POUNDS STERLING 160 PER TON. THIS IS EXPECTED ENABLE BJEC CLEAR PROMPTLY AT LEAST 1 MILLION OF THE 1.2 TO 1.5 MILLION BALES IN UNSOLD STOCKS AVAILABLE FOR EXPORT. FIRST ARRIVALS FROM NEW CROP WILL BE AVAILABLE FOR EXPORT IN ABOUT FOUR MONTHS.

B. JUTE MANUFACTURES. JUTE MILLS HAVE BEEN RUNNING AT A LOSS FOR YEARS FINANCED PREVIOUSLY BY BANK CREDIT AND SINCE FIRST OF YEAR FROM BUDGET SUBSIDY. DEVALUATION EXPECTED ENABLE MILLS OPERATE AT PROFIT WITHOUT SUBSIDY. FOR EXAMPLE, COST OF PRODUCTION OF CARPET BACKING WAS ABOUT TK. 7,000 PER TON, BUT THESE WERE SOLD AT FOREIGN EXCHANGE EQUIVALENT TK. 5,000 PER TON. 58 PERCENT DEVALUATION WILL ENABLE CARPET BACKING TO SELL AT TAKA EQUIVALENT 7,900 PER TON THEREBY AVOIDING LOSS AND PERMITTING AVOIDANCE OF SUBSIDY. BDG HAD CLOSED SOME TWENTY-FOUR JUTE MILLS OF WHICH AS OF MID-MAY PERHAPS THREE-QUARTERS HAD BEEN REOPENED. DEVALUATION EXPECTED ENABLE BDG REOPEN ALL TWNTY-FOUR MILLS.

C. OTHER EXPORT COMMODITIES.

(I) HIDES AND SKINS/LEATHER. THERE HAD BEEN NO EXPORT SUBSIDY ON LEATHER EXPORTS

AND EXPORT SALES ARE NOW EXPECTED IMPROVE SIGNIFICANTLY.

(II) TEA. AGAIN NO EXPORT SUBSIDY BUT HERE PLANTATIONS EXPECTED PAY INCREASED WAGES TO EMPLOYEES AND LITTLE EXPORT LIMITED OFFICIAL USE

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IMPROVEMENT ANTICIPATED.

(III) FROZEN PRAWNS. SALES THIS YEAR ARE RUNNING ROUGHLY 50 PERCENT BELOW THOSE OF TWO YEARS AGO. AGAIN NO EXPORT SUBSIDY HAD BEEN PAID AND BDG HOPES FOR PROMPT IMPROVEMENT IN EXPORTS.

(IV) FRESH FISH. THERE HAD BEEN NO SUBSIDY ON THIS COMMODITY WHICH IS SOLD REGULARLY TO INDIA. AS TRADE WITH INDIA NOW RPT NOW ON HARD CURRENCY BASIS, EARNINGS SHOULD IMPROVE HERE.

(V) SUBSIDIZED EXPORT COMMODITIES. MTST OF THESE HAD BENEFITTED FROM 30 PERCENT EXPORT SUBSIDY WHICH NOW REMMMED. 58 PERCENT DEVALUATION ROUGHLY DOUBLES

FORMER SUBSIDY LEVEL, BUT MANUFACTURERS  
ALSO FACE INCREASED COSTS OF IMPORTED  
RAW MATERIALS. BDG EXPECTS EXPORTERS  
WILL DIVIDE 28 PERCENT INCREASE ROUGHLY  
HALF AND HALF BETWEEN INCREASED IMPORT  
COSTS AND INCREASED MARGIN FOR PRICE  
REDUCTIONS AND/OR GREATER PROFITS.  
ON BALANCE DEVALUATION SHOULD PROVIDE  
SOME HELP TO THIS GROUP OF EXPORTS.

5. COMMENT: ABOVE ANALYSIS APPEARS REASONABLE. WE  
PLAN REPORT REGULARLY ON ACTUAL EXPORT PERFORMANCE  
AND DEVELOPMENTS IN MONTHS AHEAD.  
BOSTER

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## Message Attributes

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